What can I afford?

Providing valuable resources for our Real Estate Buyers and Sellers is our top priority.

Know what you can afford is the first rule of home buying, and that depends on how much income and how much debt you have. In general, lenders don't want borrowers to spend more than 28 percent of their gross income per month on a mortgage payment or more than 36 percent on debts.

It pays to check with several lenders before you start searching for a home. Most will be happy to roughly calculate what you can afford and prequalify you for a loan.

The price you can afford to pay for a home will depend on six factors:

1. gross income

2. the amount of cash you have available for the down payment, closing costs and cash reserves required by the lender

3. your outstanding debts

4. your credit history

5. the type of mortgage you select

6. current interest rates

Another number lenders use to evaluate how much you can afford is the housing expense-to-income ratio. It is determined by calculating your projected monthly housing expense, which consists of the principal and interest payment on your new home loan, property taxes and hazard insurance (or PITI as it is known). If you have to pay monthly homeowners association dues and/or private mortgage insurance, this also will be added to your PITI.

This ratio should fall between 28 to 33 percent, although some lenders will go higher under certain circumstances. Your total debt-to-income ratio should be in the 34 to 38 percent range.